

CHAPTER VII**MONEY
&
BANKING****7.1 Money****7.2 Financial System in Sri Lanka****7.3 Central Bank of Sri Lanka****7.4 Services of Banks & Finance Institutions****7.5 Negotiable Documents****7.6 E-Money**

Concepts & Issues that emerge from the content

- ❖ Money
 - + Introduction & characteristics
 - + Functions & types
- ❖ Financial system in Sri Lanka
 - + Banking sector
 - + Other financial institutions
 - + Specialized financial institutions
 - + Contractual savings institutions
 - + Importance of financial system in a country as a service of business
- ❖ Central bank of Sri Lanka
 - + Introduction
 - + Aims & functions
 - + Importance of functions of Central Bank on the success of business
- ❖ Services of banks & finance institutions
 - + Types of deposits
 - + Importance of various types of deposits
 - + Loans
- ❖ Services of commercial banks
 - + Special services of commercial banks & its importance
 - + Impact of commercial banks towards businesses
- ❖ Negotiable documents
 - + Cheques, types & parties
 - + Factors considered in writing a cheque
 - + Types of cheques
 - + Other types of negotiable documents
- ❖ E-money
 - + Types, parties & characteristics
 - + Advantages & limitations



7.1 MONEY

What is Money?

.....

.....

Something generally accepted as a medium of exchange, a measure of value, or a means of payment.

- Merriam Webster Dictionary

Money is any item or verifiable record that is generally accepted as payment for goods and services and repayment of debts, such as taxes, in a particular country or socio-economic context.

- www.en.wikipedia.org

Something that serves as a medium of exchange, a unit of accounting, and a store of value. Money is a medium of exchange in the sense that we all agree to accept it in making transactions.

- www.shmoop.com

Money was developed to eliminate the drawbacks of the “barter system” which was considered the first stage of trade. Money has evolved from basic commodity to e-money which can be elaborated as follows;

1. Commodity Money
2. Metallic money
3. Standard Money
4. Representative Money
5. Perfect Money
6. Currency Money
7. Bank Money
8. E-Money



What are the features / characteristics of good money?

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

What are the “Functions” of Money?

Medium of Exchange

Standard of Value

Store of Value

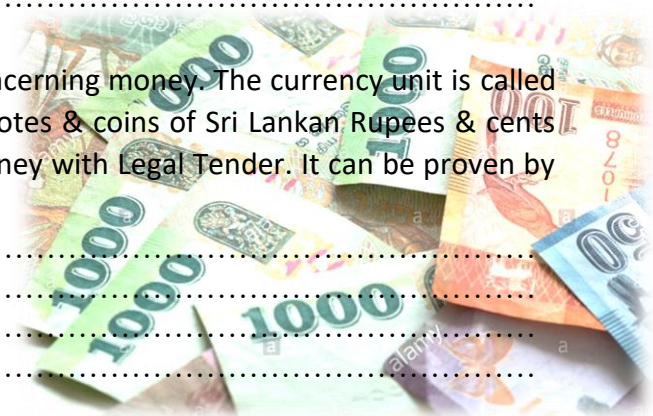
Standard of Future Payments

What is Legal Tender of Money?

.....

The Central Bank of Sri Lanka is the rightful authority concerning money. The currency unit is called “Sri Lankan Rupee” (Rupees & Cents) & therefore the Notes & coins of Sri Lankan Rupees & cents issued by the Central Bank of Sri Lanka is considered money with Legal Tender. It can be proven by the following phrase in the currency Note;

.....



Legal Tender of Money can be classified into 2 as;



1. Money with Limited Legal Tender

.....

.....

.....

.....

Note-

2. Money with Unlimited Legal Tender

.....

.....

.....

.....

Note-

What are the Types of Money found?

Currency Money	
Bank Money	
Near Money	
Commodity Money	
Perfect Money	
Token Money	
E-Money	



What are the other types of Money found?

1. Cheap Money
2. Dear Money
3. Hard Money
4. Soft Money
5. Commemorative Money
6. Antique Money
7. High-powered Money
8. Black Money
9. Mutilated Money
10. Unserviceable Money



How to classify Money as per Economics Theory?

1. Currency

.....

.....

.....

2. Demand deposits

.....

.....

.....

3. Time deposits

.....

.....

.....

What are the security features found in Currency Notes?

.....

.....

.....



What is Liquidity & Liquidity Preference?

<p>Liquidity</p> <div style="border: 1px solid black; height: 150px; width: 100%;"></div>	<p>Liquidity Preference</p> <div style="border: 1px solid black; height: 150px; width: 100%;"></div>	<p>Reasons for Liquidity Preference</p> <div style="border: 1px solid black; height: 150px; width: 100%;"></div>
--	---	---

What is Value of Money?

<p>Face Value</p> <div style="border: 1px solid black; height: 150px; width: 100%;"></div>	<p>Purchasing Power</p> <div style="border: 1px solid black; height: 150px; width: 100%;"></div>	<p>Exchange Rates</p> <div style="border: 1px solid black; height: 150px; width: 100%;"></div>
---	---	---

The Exchange Rates for some of currencies popular in Sri Lanka can be;

Foreign Currency	Exchange Rate in LKR





7.2 FINANCIAL SYSTEM IN SRI LANKA

What is a financial organization?

Financial organization is an institution (public or private) that collects funds (from the public or other institutions) and invests them in financial assets.

A financial institution is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.

Financial institutions serve most people in some way, as financial operations are a critical part of any economy, with individuals and companies relying on financial institutions for transactions and investing. Governments consider it imperative to oversee and regulate banks and financial institutions because they do play such an integral part of the economy. Historically, bankruptcies of financial institutions can create panic.

What are the types of Finance organizations in Sri Lanka?

<p>Banking Sector</p> <ul style="list-style-type: none"> + + +
<p>Deposit taking finance institutions</p> <ul style="list-style-type: none"> + + +
<p>Specialized finance institutions</p> <ul style="list-style-type: none"> + + + + + +
<p>Contractual savings institutions</p> <ul style="list-style-type: none"> + + + + +



7.3 CENTRAL BANK OF SRI LANKA

The Central Bank of Sri Lanka is the monetary authority of Sri Lanka, and the apex institution in the country's financial sector. Established in 1950 under the Monetary Law Act No.58 of 1949 (MLA), it is a government owned semi-autonomous body, and following the amendments to the MLA in December 2002, is

governed by a five-member Monetary Board, comprising the Governor as chairman, the Secretary to the Ministry of Finance and Planning, and three members appointed by the President of Sri Lanka, on the recommendation of the Minister of Finance, with the concurrence of the Constitutional Council.

The Central Bank of Sri Lanka was established in 1950, two years after independence. The founder governor of the Central Bank of Sri Lanka was John Exter, while the minister of finance at the time was J. R. Jayewardene. Under the former name of Central Bank of Ceylon it replaced the Currency Board that until then had been responsible for issuing the country's money. It is a member of the Asian Clearing Union.

The bank is responsible for the conduct of monetary policy in Sri Lanka and also has wide supervisory powers over the financial system. The bank is engaged in developing policies to promote financial inclusion and is a member of the Alliance for Financial Inclusion.

With a view to encouraging and promoting the development of the productive resources of Sri Lanka, the CBSL is responsible for securing its core objectives of economic and price stability and financial system stability. The CBSL is also responsible for currency issue and management. In addition, the CBSL is the advisor on economic affairs as well as the banker to the Government of Sri Lanka (GOSL). On behalf of GOSL, the CBSL, as its agent, is responsible for four agency functions of: management of the Employees Provident Fund; management of the public debt of Sri Lanka; administration of the provisions of the Exchange Control Act; and administration of foreign and government funded credit schemes for regional development.



The Governor of the CBSL functions as its chief executive officer. The governor, two deputy governors and several assistant governors, along with the heads of departments, form the senior management of the CBSL. Functionally, the CBSL presently consists of 27 departments, each headed by a director (or equivalent), reporting to the governor or the deputy governor through an assistant governor, with the exception of the Management Audit Department, which reports directly to the governor.

The Economic Research and Bank Supervision Departments were explicitly set up under the original legislation establishing the CBSL, with certain statutory functions. The Economic Research Department is required to compile data and conduct economic research for the guidance of the

What are the payment & settlement systems / financial infrastructure systems used in Sri Lanka?

1. Scripless Securities Settlement System (SSSS)
2. Scripless Securities Depository System (SSDS)
3. Lankasecure system
4. Real-time Gross Settlement System (RTGS)
5. Lanka-settle
6. Sri Lanka Inter-bank Payment System (SLIPS)
7. Society for Worldwide Inter-bank Financial Telecommunication (SWIFT)

SSSS	
SSDS	
Lankasecure	
RTGS	
Lankasettle	
SLIPS	
SWIFT	

What are the benefits to a customer from the increasing number of LCB's?

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

What is a Licensed Specialized Bank (LSB)?

This is a finance institution commenced on a special license issued by the Central Bank of Sri Lanka under "Bank Act No-30 of 1988" to function as specialized banking institutions that take deposits & provide other financial services except for maintaining current accounts & deal with foreign exchange (FOREX).

Ex-



What are the services provided by LSB's?

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

LCB vs LSB

Similarities

.....

.....

.....

.....

Differences

.....

.....

.....

.....

.....

.....

.....

.....

.....





What is a Registered / Licensed Finance Company (LFC)?

This is a finance institution which is a Public Limited Company (PLC) commenced on a license issued by the central bank of Sri Lanka & registered under “Finance Business Act No-42 of 2011” to accept deposits & provide other financial services to the public except for current accounts & forex. This is not a bank but a simple finance institution.

Ex-

What are the services provided by LFC’s?

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

What is a Specialized Leasing Company?

This is a limited liability company commenced on a special license issued by the Central Bank of Sri Lanka under “Leasing act No-56 of 2000” to provide leasing facilities to customers.

Ex-



A lease is a loan facility obtained by keeping the asset that is purchased by using that loan as security / collateral & paying back in fixed (sometimes variable) installments which includes a capital component & interest component, within a specified time period.

The following are special terms used in a Lease;

1. Lessee –
2. Lessor –
3. Lease Agreement –
4. Lease Rental –

Leasing can be classified into 3 as follows;

1. Finance Lease

.....

.....

.....

.....

2. Operational Lease

.....

.....

.....

.....

3. Buy-back Lease

.....

.....

.....

.....

What are the services provided by Leasing companies?

.....

.....

.....

.....

.....

What are the reasons for the recent popularity of leasing method?

.....

.....

.....

.....

.....

.....

What is a Business / Vanik Bank?

This is a finance institution that exists to provide financial services, consultancy & management services to Business organizations. Here the clients are businesses & not individuals. Therefore nature & value of transactions are very high.

Ex-



Some services provided by business banks can be;

.....

.....

.....

.....

.....

.....

.....

.....



What is a Co-operative Rural Bank?

This is a co-operative society established under the “Co-operative societies act no-11 of 1992” at the department of Co-operative development to take deposits from the members & public & provide loans especially to its members.

Ex-

Some of the services provided by Co-operative Rural Banks can be;

- ✓ Receiving deposits from members as well as non-members
- ✓ Pawning activities (Mortgage)
- ✓ Maintenance of Savings and Fixed Deposit accounts
- ✓ Providing loan facilities to members for agriculture, manufacturing, industrial & marketing activities
- ✓ Popularizing the co-operative life-style among rural people

What is a Thrift & credit Transaction Co-operative Society (SANASA)?

This is a special type of finance institution registered with the Commissioner of Co-operatives under the Co-operatives Societies Act No-11 of 1992 to provide with loan facilities only to members by utilizing the deposits obtained as savings & membership shares while aiming encouraging savings & the providing loans to members as its objective.

Ex-

Some of the services provided by SANASA banks can be;

- ✓ Operating marketing centers to market & sell the productions of members
- ✓ Marketing & selling of equipment in the field of activity of the society at concessionary prices, for example: Fisheries Co-Operative Societies – Fishing gear
- ✓ Accepting deposits and providing loans to its members

What is a Venture Capital Company?

This is a finance institution that specializes in helping potential entrepreneurs with fantastic business ideas & yet don't have the required money or capital to implement them. Here the company will become partners or shareholders of the venture or business started by investing money & providing a good portion of ownership to the entrepreneur to recognize his value addition. They also provide underwriting facilities, loans facilities etc.

Ex-

What is a Debt Factoring Company?

This is an organization that takes over the debtors of a given client & collects debt on behalf him / her for a profit margin of value, called commission. In other words, a company that buys debtors at a discounted rate upfront from the payment date & later collects that debt. Clients use them since they're unable to wait till the payment date due to financial urgency.

Ex-

What is an Insurance Company?

This is a finance institution involved in life insurance & providing life insurance policies, investment plans, medical plans, retirement benefits etc with long term returns. (More will be learnt in the next lesson)

Ex-

What is an Underwriter?

This is a Finance company that agrees to buy the deficit number of shares of a new PLC if it is unable to achieve its minimum subscription during its initial public offering (IPO). By doing so, the underwriter becomes a shareholder of the company & assists it to start.

Ex-

What is a Unit Trust?

This is a company comprising of professional fund managers who manage the clients’ funds invested in an investment portfolio. The funds are raised by selling shares of the unit trust to the public who are basically shareholders. A unit trust comprises of the following three parties.

- +
- +
- +

All funds generated will be invested in an investment portfolio mainly in the stock market, where returns generated will be distributed among shareholder on the proportion or percentage of the price of a unit.

Ex-

Trustee	Fund Management Company

What is a Primary Dealer firm?

This is a firm authorized by CBSL to first bid & buy government securities (treasury bills & bonds) from the primary market & then resell in the secondary market. They would buy the government securities directly from the CBSL & then sell it in the secondary market.

Ex-

What is a Share Broker firm?

This is a broker firm that function as middleman between shareholders & companies & assist them to trade shares, debentures etc. Therefore any person or organization or PLC, buying or selling shares through the Colombo Stock exchange (CSE), have to do it through the stock broker by paying the standard rate of commission. All share brokers are registered at the CSE & Securities & Exchange Commission (SEC).

Ex-



What is Pension Fund & EPF?

There are pension funds & provident funds administrated by the state sector management & private sector management comprising the money for retirement of both public & private sector employees.

Examples:

Funds under state management

Employees Trust Fund – This is administered by the Employees Trust Fund Board coming under the purview of the Ministry of Policy Planning, Economic Affairs, Child, Youth Cultural Affairs.

State Service Provident Fund - This fund is managed by the Pensions Department

Employees Provident Fund – (EPF) - This is the largest pension fund for the private sector employees in Sri Lanka & is administered by the Labour Commissioner. The responsibility of management of this fund is with the Central Bank of Sri Lanka (CBSL).

Funds managed by the private sector & approved pension & provident funds are administered under the purview of the Labour Department.

What is Credit Information Bureau (CRIB)?

This is an institution owned by CBSL, LCB’s, LSB’s & LFC’s which gathers information about borrowers of loans & its details & provides them to the shareholders who are money lenders. All details of laons taken are recorded here & therefore any shareholder can access information by simply entering the National Identity Card (NIC) number. This organization was incorporated under “Sri Lanka Credit Information Bureau Act No-18 of 1990”. The website is www.crib.lk

What is a Credit Rating Institution?

This is an independent organization which does an analysis & provides a grading on the financial strength of a lender or borrower organization or country. This will certify the suitability for a person, organization, or country to obtain a loan from a lender while certify the repayment capacity of a borrower to a lender or investor. Ratings are used to compare finance organizations & countries locally & globally

Ex-

What are the factors that should be considered by a person when depositing money in a finance institution?

.....

.....

.....

.....

.....

.....

.....



What is a Current Account & What are the benefits of having it to a customer?

A Current Account is an account that allows an account holder to deposit money in the account & make payments through it using cheques. Here unlike savings accounts, no interest is paid by the bank on the deposit balance. Current accounts can be classified as Personal or Business.

The benefits of maintaining a Current Account can be;

.....

.....

.....

.....

.....

.....

What is an Overdraft Facility (O/D Facility)?

This is a loan facility given by LCB's to its current account holders to issue cheques up to a specified value beyond their account balances. The O/D facility can be Permanent or temporary, while all current account holders may not get this facility.

When an O/D facility has been given, the bank will honor cheques issued / drawn by the account holder, up to the O/D limit. Therefore, the value of cheques drawn for above the available balance in the current account is known as the bank overdraft.

Normally a higher rate of interest is charged on overdraft, since it's a sudden loan given by the bank, where many loan requirements are not considered unlike other loans.

Permanent O/D's require collateral while Temporary O/D's don't. On the other hand Permanent O/D's have low interest while Temporary O/D's have higher interest.

What is a Loan?

A loan is an amount of money or equivalent being given by a bank (lender) to a person or organization (borrower) on the agreement to repay the amount plus interest within a given time, either in full or in installments. A Loan can be basically classified into 2 as;

1. Sales Credit

.....

.....

.....

2. Cash Credit

.....

.....

.....



What are the information required by a lender when applying for a loan?

.....

.....

.....

.....

.....

.....

.....

.....

.....

What are the factors considered by a lender before providing a Loan?

1. Credit worthiness
2. Capacity
3. Capital
4. Character
5. Collateral
6. Coverage
7. Profitability
8. Government policies

What are the steps followed by a lender when providing a loan?

1. Receiving an application form
2. Investigation of the potential borrower
3. Asses the application – Asses the 6 C's
4. Deciding whether to lend or not
5. Deciding the amount to lend
6. Request for collateral
7. Signing legal documents & agreements
8. Grant the approved loan
9. Monitor the progress & collect loan installments

What are the differences between a Loan & an O/D facility?

Bank Loan	Bank O/D



What is a Savings account?

This is account where the account holder can deposit & withdraw money at any time where an interest will be paid by the bank based on the deposit balance & time period. The account can be personal, business or joint account. It is easy open with a small deposit by filling in the application stating the required information. A passbook & an ATM debit card will be given.

Note-

What are the similarities & differences between a current account & savings account?

Similarities

.....

.....

.....

.....

Differences

Current Account	Savings Account

What is a Fixed / Term Deposit?

This is where a one-time deposit is made for a fixed period of time which can range from 7 days to 5 years. A deposit certificate will be given where interest rates are quite attractive than other accounts. Anytime withdrawal is not possible but if needed, it can be done after paying a penalty surcharge. After expiry, if not withdrawn, the account will get automatically renewed for another period.



.....

Who are the parties involved in a credit card?

- +
- +
- +
- +

What are the most popular credit card brands in the world?

- +
- +
- +
- +
- +
- +



What are the advantages & disadvantages of Credit Cards?

Advantages	
Customer	Seller
+	+
+	+
+	+
+	+
+	+
+	+
+	+
+	+
+	+

Disadvantages	
Customer	Seller
+	+
+	+
+	+
+	+
+	+
+	+
+	+
+	+
+	+



What are the advantages & disadvantages of credit cards to the issuing bank?

Front Side	Reverse Side

Why credit cards are so popular among the public today?

.....

.....

.....

.....

.....

.....

.....

.....

Why some people don't prefer to use credit cards?

.....

.....

.....

.....

.....

.....

.....

.....

What is automated banking services?

This is facility given by a finance institution to its customers to engage in many of its services at any time of the day without physically going to the bank through Automated Teller Machines (ATM) which uses EFTS. Such facilities are given to ease the customer's efforts & attract more customers while being in line with advanced technology.

Ex-

A magnetic striped card & a personal identification number (PIN) will be given by the bank to the customer, where all transactions are done by inserting the card & the PIN to the ATM. The PIN which normally contains 4-5 characters is issued for security purposes. The ATM card better known



as debit card is today being enabled by Visa, Mastercard or Amex & thereby enabling to use it worldwide to make payments too in addition to at ATM's.

The information found in an ATM / Debit card can be;

.....

.....

.....

.....

.....

.....

.....

.....

What are advantages of Automated banking services?

To the Customer	To the Bank

Why some customers refuse to use Automated Banking Services?

.....

.....

.....

.....

.....

.....

.....

What is a Pawning Service?

This is a mortgage facility given by finance institutions to customers where they can obtain a loan (mostly short term) by providing something valuable such as gold, land deeds, vehicle registration books, gems etc as collateral. The customer will have to pay back the loan along with interest or if not, the ownership of mortgaged asset will be taken over by the finance institution. This is very popular in Sri Lanka for mortgaging gold jewelry.

Ex-

What is a Bank Draft?

This is facility given by a finance institution where it takes an amount from a given customer & agrees to pay another person or organization on behalf of the customer in the form of a draft. Therefore the draft amount will be certified of payment to the receiver. This is similar to a cheque but doesn't need a current account.



2. RFC Accounts

.....

.....

.....

.....

3. FCBU Accounts

.....

.....

.....

.....

What are the benefits of Foreign Currency Accounts?

To the Account Holder	To the Nation

7.5 NEGOTIABLE DOCUMENTS

What is a Negotiable Document / Instrument?

This is a document that guarantees the payment of a specific amount of money, either on demand, or at a set time, to a stated or implied person with the payer usually named on the document. This document is there to certify & ensure payment to a given person, where by failing which, legal action can be taken by the affected.

Ex-

Based on Law	Based on Tradition
+	+
+	+
+	+

Note-

What are the features of a Negotiable Instrument?

.....

.....

.....

.....

.....



.....

.....

.....

.....

.....

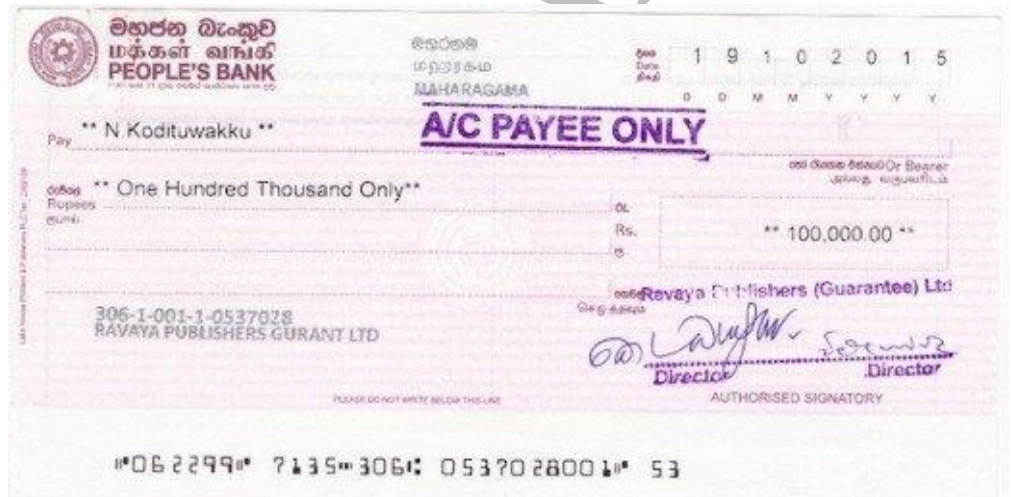
What is a Cheque?

This is a written order issued from a current account holder to the bank, to pay an amount to the mentioned person or bearer. The 3 parties in a cheque are;

- +
- +
- +

What are the features found in a cheque?

1. Bank & branch names
2. Date
3. Payee
4. "or bearer" phrase
5. Amount
6. Phrase "Pay"
7. Signature
8. MICR
9. Cheque counter-foil



What are the types of cheques found?

1. Bearer Cheque

.....

.....

.....

2. Order Cheque

.....

.....

.....

3. Crossed Cheque

.....

.....

.....

Ex-

2. Special Crossing

.....

Ex-

What is Bills of Exchange?

This is condition-less order document prepared by a creditor & submitted to a debtor for acceptance stating that the debtor owes a given amount to the creditor & he agrees to pay that amount on or before a mentioned date. Once the debtor has accepted, the bill becomes legal. This document will remain with the creditor, where he can;

- +
- +
- +

Note-

What is Promissory Notes?

This is a condition-less document prepared by a debtor with his signature & given to a creditor certifying that he owes an amount & promises to pay it on or before a mentioned date. Once the time has lapsed, the creditor can submit it to the debtor & get his money or use it in another transaction or discount it before expiry.

Note-

7.6 E-MONEY

What is E-Money?

This is the money equivalent which takes an electronic form & being exchanged electronically between parties using EFTS. Here the money doesn't have a physical format, but exists virtually. This has eased the way transactions have been done & thereby resulting in not only convenience but safety, transferability & greater access.



What are the E-Money options available today?

1. Direct Credit Transfers

.....
.....
.....
.....

2. Direct Debit Payments

.....
.....
.....
.....

3. Credit card - Discussed

4. Debit card - Discussed

5. Pre-paid card

.....
.....
.....
.....

6. Smart card

.....
.....
.....
.....

7. Shopping card

.....
.....
.....
.....

8. M-Payments

.....
.....
.....
.....

9. Contact-less payment cards

.....
.....
.....
.....



What are the options available to pay E-Money?

Dotted lines for handwritten notes.

UWS UNIVERSITY OF THE WEST OF SCOTLAND

Imperial College of Business Studies THE LEARNING EXPERIENCE OF A LIFETIME

WE LEAD MANY FOLLOW!

THE ONLY DEGREE THAT PROVIDE

13 EXAMS EXEMPTIONS

BA(HONS) INTERNATIONAL BUSINESS & FINANCE

03 YEARS 480 CREDITS

PART TIME | FULL TIME CLASSES

OTHER QUALIFICATIONS



Head Office - Colombo

www.icbgroup.com

Branch - Kandy

No 320, 1/1, Galle Road, Colombo 3, Sri Lanka

No 15, George E.De Silva Mawatha Kandy

+ (94) 114 515 253 + (94) 773 918 777

+ (94) 814 950 950 + (94) 773 919 777





Support Class Information ADVANCED LEVELS - 2021, 2022 & 2023

Business Studies (Theory program) by Mr. Dillon Anthony

- ❖ Vision International School – Kandy – Info – 0777277729
- ❖ Sigma Institute – Colombo 06 – Info – 0112-559877
- ❖ Online – www.mind-hub.lk/programs/business-studies

Economics (Theory Program) by Mr. Imran Hasheem

- ❖ Sigma Institute – Colombo 06 – Info – 0112-559877
- ❖ Online – www.mind-hub.lk/programs/economics

Accounting (Theory Program) by Mr. Pasindu Wijerama

Contact on 0773002551, 0705002551 for more details on the Accounting class.

More details visit www.mind-hub.lk & register for online classes. Hotline 0777277729
General Information hotline – 011-2559877, 011-4935135

Note – This is a theory tutorial with in detail explanations for the students of Mind-ventures Educational Services only & not allowed for unauthorized referencing, extractions, usage etc by external parties. (Violation makes you a thief) Mind-ventures believe in ethical teaching practices at all times, even though others don't.

Dillon Anthony

